

ANNUAL REPORT

December 31, 1945

J. C. PENNEY COMPANY
(A DELAWARE CORPORATION)

OPERATING 1602 RETAIL STORES

TO THE STOCKHOLDERS OF J. C. PENNEY COMPANY

March 21, 1946

This report brings to you the December 31, 1945, Balance Sheet, and supporting statements for J. C. Penney Company and its wholly-owned subsidiaries.

SALES

In 1945 the Company reached a new high point in sales. The total of \$549,149,147.67 was \$13,786,253.37 more than the previous record year in 1944, when sales were \$535,362,894.30. The percentage of gain for the year was 02.58%.

At the year-end the number of stores in operation was 1602, as compared with 1608 at the previous year-end. During the year, even following the cessation of active hostilities, the shortage of merchandise, particularly in the wanted staple lines, showed no perceptible change. Actually, at the year-end the over-all supply picture was worse than during the war days.

FINANCIAL STATEMENTS

Cash on hand and in banks December 31st and Government Securities totalled \$95,741,722.71. This cash position appears to us ample, both for immediate needs and for any developments that may be anticipated.

MERCHANDISE INVENTORY

The merchandise inventory at December 31, 1945, was \$75,245,472.07, compared with \$69,104,461.13, at the end of 1944. In both years the inventory was low in respect both to the current rate of sales and to future prospects. The reasons for this were threefold—a lack of staple merchandise, emphasis on quick turnover merchandise, and a policy of avoiding undesirable merchandise of quality below Penney standards.

PROFITS

Net profits for 1945 amounted to \$17,367,825.56, equal to \$2.11 per share on each of the 8,231,952 shares of common stock currently outstanding.

For 1944 the net profits were \$17,159,357.17, or \$6.25 per share on each of the 2,743,984 shares outstanding at that time. This represents \$2.08 per share based on 8,231,952 shares currently outstanding.

On December 26, 1945, the stockholders approved overwhelmingly a proposal to split the stock by issuing two additional shares of stock for each share then outstanding, resulting in an increase of 5,187,968 outstanding shares.

DIVIDENDS

Dividends paid in 1945 totalled \$5.00 per share on the shares then outstanding, including four quarterly dividends of 75¢ each and a year-end extra of \$2.00. After the payments of these dividends, \$3,647,905.56 were added to the surplus account of the Company.

NEW DIRECTORS AND OFFICERS

During the year there were two changes in the membership of the Board of Directors. On August 2, 1945, Mr. G. H. Crocker, who had been head of the wholly-owned subsidiary, The Crescent Corset Company, since its establishment in 1920

and a director of J. C. Penney Company since 1926, passed away. In November, Mr. L. V. Day, who had been associated with the Company since 1912 and had been a director of the Company since 1926, asked to be relieved of his duties.

Two new members of the Board were elected at the November meeting to succeed Mr. Crocker and Mr. Day. They were Mr. F. A. Bantz and Mr. J. F. Brown. Mr. Bantz has been associated with the Penney Company since 1922 in the buying and merchandise departments and for the past ten years has been the active head of two of the largest buying divisions of the Company. Mr. Brown, who has been a member of the Penney organization since 1921 as a salesman, store manager, and a district manager, came to the New York Office in 1945 as head of the Real Estate and Construction Department of the Company.

In November Mr. R. W. Trown, who had been Comptroller of the Company since 1929, resigned and was succeeded by the Assistant Comptroller, Mr. R. C. Weideman, an associate of the Company since 1916.

RETIREMENT PLAN

The Company's Retirement Plan was submitted to the stockholders in 1940 and approved by them. Incidental to that Plan, the Company provided for the compulsory retirement of active, salaried associates at the age of 60. At the time of its adoption, the effective date of retirement was postponed to July 1, 1945, in order to permit of an orderly adjustment. Under the terms of this Plan, fifty associates retired last year. Forty-four of these were store managers and six were officers and executives in the Central Office. Our experience with the operation of this Plan confirms the reasons which prompted its inception and submission to the stockholders—to help provide security for those who have served well, to make available a further incentive to those who serve and are preparing to serve, to open the lines of promotion to younger men, and to maintain a vigorous and competent personnel.

In accordance with the Company's Retirement Plan, Mr. J. I. H. Herbert, an associate of the Company since 1911, retired as Company Treasurer and Third Vice-President in July, 1945, and Mr. G. E. Mack, first associated with the Company in 1921 and more recently district manager and manager of the Company's Seattle store, was elected Treasurer of the Company.

Mr. E. A. Ross, an associate of the Company since 1916, and a director of the Company since 1930, retired as head of the Real Estate and Construction Department in July.

Both Mr. Herbert and Mr. Ross continue as members of the Board of Directors. We feel that the Company is fortunate to retain the advantage of their experienced counsel and guidance in this capacity.

RETURNING WAR VETERANS

A year ago I called your attention to the number of Penney Associates serving in the Armed Forces. Over 5,500 men and women from our Company were in uniform during the war. Of this group 1,216 had been released from service on December 31, 1945, and of these 85% had returned to active employment with the Company. Of course, we ~~are happy~~ to have these Veterans back with us. The high percentage of those returning furnishes another and very concrete evidence of the loyalty and enthusiasm of Penney associates, which have meant so much in the life of this Company.

IMPROVEMENTS AND EXPANSION

During the years immediately preceding the war, this Company was engaged in a regular program of improving and modernizing its store buildings and locations. This program was, necessarily, curtailed under war-time restrictions. At the present time, the Company is resuming that program, where conditions permit and where expenditures seem warranted. It is, of course, impossible to proceed as rapidly as we had hoped, because of the tight situation in the construction field. However, work is being carried forward in a number of stores.

During the war years a number of leases were negotiated for new plants in existing locations and for a small number of stores in new communities. Our plans for added units under today's conditions will follow the policy to which I have referred in several annual reports in recent years. That policy is one of selective expansion, where, in the management's opinion, opportunities are presented in line with sound operating possibilities.

COMPANY PERSONNEL

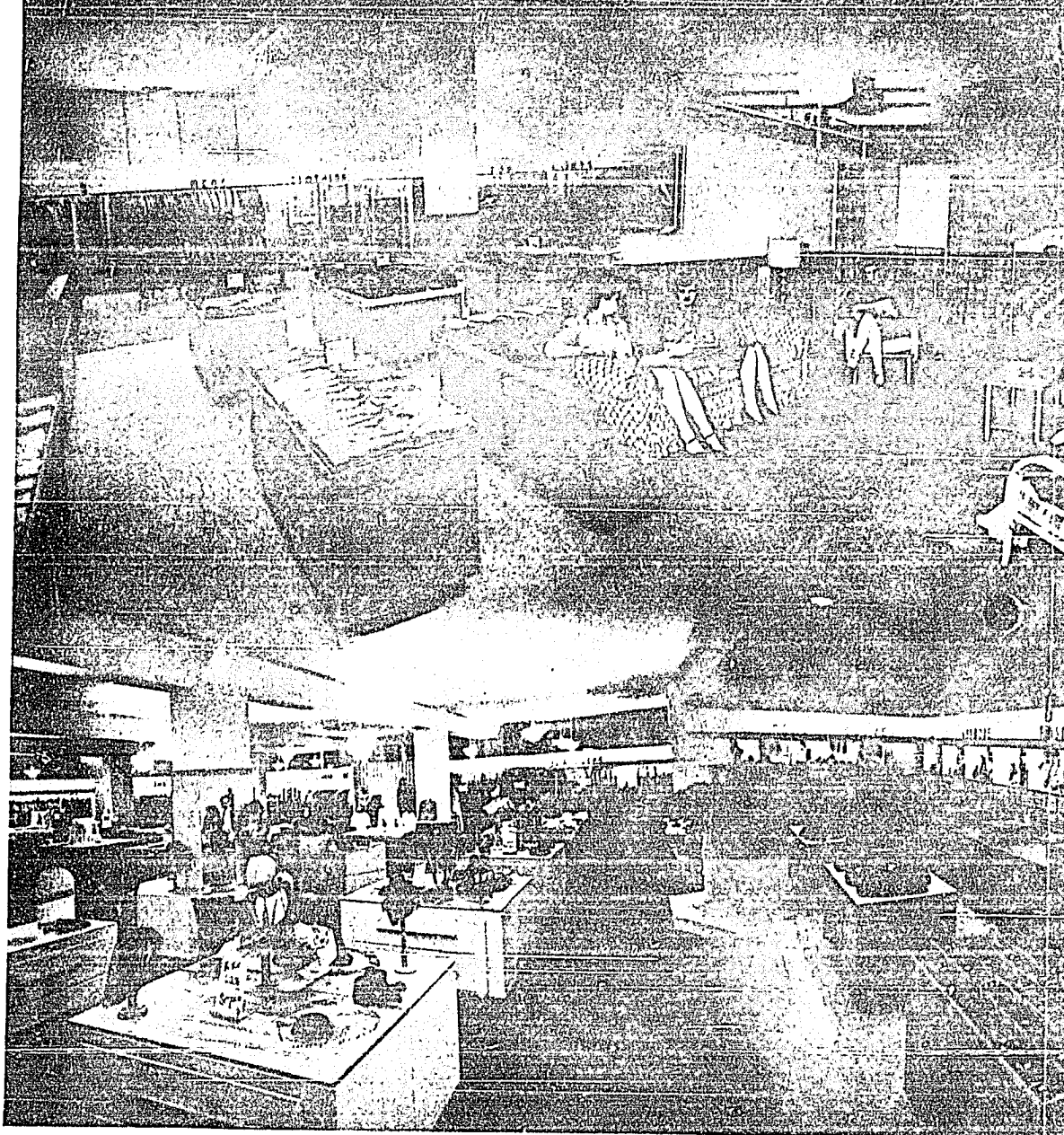
Consumer buying-power and consumer demand in 1945 were at a peak. From an operating viewpoint the year was a trying one for retail store operators. The difficulty of securing desirable merchandise, the continued shortage of personnel, the limitations and complications of government controls—these and other problems had to be met by the management of this Company both in the stores and in the Central Offices. The year's results indicate that they were well met.

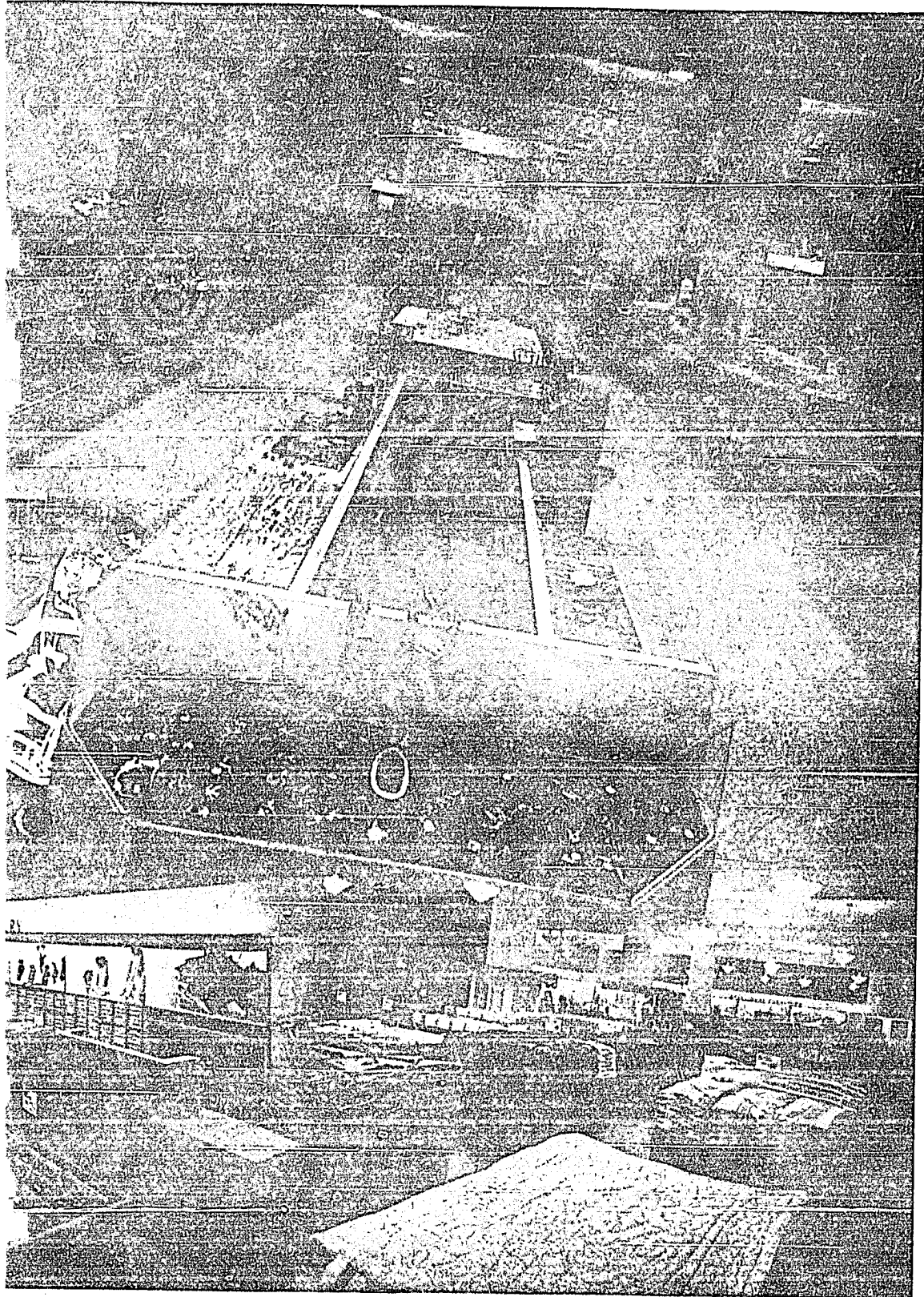
I want to express to the associates of this Company—both in the management group and among all associates—appreciation for the effort, alertness and loyalty with which they have discharged their duties. From its very inception the Penney Company has considered the people in our business—the personnel of this Company—as the most important single element in our operation. Paid vacations, adequate provision for sick leave, gratuitous death benefits, bonuses for unusual effort, and a Thrift and Profit-Sharing Retirement Plan have long been incorporated in our personnel program for the great bulk of our associates. The principle of profit-sharing for management and the policy of making individual earnings for those in the management ranks dependent on results have formed one of the keystones on which the Penney Company has been built. It is my conviction that these policies have more than justified themselves in the results attained and deserve the continued full support of every stockholder.



The Annual Meeting of Stockholders will be held on April 20th, 1946. A proxy statement, with a request for proxies, will be mailed to stockholders on or about March 28th.

Interiors of Recently Remodeled Penney Stores





J. C. Penney Company

(A Delaware Corporation)

BALANCE SHEET

As of December 31, 1945

ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....	\$ 69,612,184.33
U. S. Government securities (including \$10,120,000.00 Series C tax notes)—at cost.....	20,145,100.00
Excess profits tax refund bonds.....	5,984,438.38
Accounts receivable—trade and miscellaneous.....	1,079,804.51
Merchandise (Note)	<u>75,245,472.07</u>
Total Current Assets.....	172,066,999.29

Investments in and Advances to Subsidiary Companies
(including undistributed surplus)—at amounts as
shown by subsidiaries' balance sheets:

Advances	\$4,565,000.00	
Capital stock and surplus.....	<u>1,898,643.03</u>	6,463,643.03

Mortgages Receivable	23,305.94
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Fixed Assets, at not in excess of cost, less provision
for depreciation:

Land	2,220,550.43
Buildings	\$2,269,173.38
Less Reserve for depreciation	<u>604,165.85</u>
	<u>1,665,007.53</u>
	3,885,557.96

Furniture and fixtures, less provision for depreciation.....	9,253,987.51
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Improvements to leaseholds, less amortization	<u>1,217,090.58</u>	14,356,636.05
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Deferred Charges—Unexpired Insurance Premiums,
Rent Advances, etc.

463,210.06

\$193,373,794.37

Note: Inventories are stated at the lower of cost or market determined as follows:

Merchandise in stores—lower of cost or market determined by the retail method. Stocks in warehouses and with manufacturers, including raw materials shipped to manufacturers—cost determined by the first-in first-out method and market on the basis of replacement cost.

J. C. Penney Company

(A Delaware Corporation)

BALANCE SHEET

As of December 31, 1945

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 44,445,535.71
Provision for Federal taxes on income	<u>43,459,276.57</u>
Total Current Liabilities	87,904,812.28

Reserve for Fire Losses, Etc., and Employees' Death Benefits	2,936,824.89
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Common Stock, no par value:

Authorized, 9,000,000 shares.

Outstanding, 8,231,952 shares (including 5,487,968 shares issuable as of December 26, 1945 in connection with stock split-up)	34,122,766.67
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Surplus (Earned):

J. C. Penney Company	\$66,560,747.50	
Undistributed surplus of subsidiaries	<u>1,848,643.03</u>	68,409,390.53

\$193,373,794.37

J. C. Penney Company

PROFIT AND LOSS ACCOUNT

For the Year ended December 31, 1945

(Including profits of subsidiaries)

Sales		\$549,149,147.67
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$478,776,632.44	
Maintenance and Repairs	1,387,269.90	
Depreciation and Amortization	1,451,395.10	
Taxes, other than Taxes on Income	1,458,863.46	
Company Contributions to Retirement Plans	3,277,658.16	489,351,819.06
		<u>59,797,328.61</u>
Discount on Purchases, Interest Received and Miscellaneous Income (net)		<u>1,377,325.72</u>
Profit before Provision for Taxes on Income		61,174,654.33
Provision for Taxes on Income:		
Federal normal income tax and surtax	7,865,000.00	
Federal excess profits tax	35,555,000.00	
Other income taxes	615,000.00	44,035,000.00
		<u>17,139,654.33</u>
Add 1945 Profits of Subsidiaries		228,171.23
Transferred to Surplus		<u>\$ 17,367,825.56</u>
Note:		
Common stock outstanding at end of year (including 5,487,968 shares issuable as of December 26, 1945 in connection with stock split-up)	Shares	<u>8,231,952</u>
Earnings per share of common stock, on increased number as above		<u>\$2.11</u>

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1944	\$64,761,484.97
Net Income for 1945	17,367,825.56
	<u>82,129,310.53</u>
Cash Dividends on Common Stock	13,719,920.00
Surplus at December 31, 1945	<u>\$68,409,390.53</u>

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the balance sheet of the J. C. Penney Company as of December 31, 1945 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the J. C. Penney Company at December 31, 1945 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
March 21, 1946.

Year-by-Year Sales Figures

1902-1945

Year	No. of Stores	Gross Business	Year	No. of Stores	Gross Business
1902	1	\$ 28,898.11	1924	569	74,261,343.00
1903	1	63,522.95	1925	674	91,062,616.17
1904	2	94,165.49	1926	747	115,683,023.37
1905	2	97,653.54	1927	892	151,957,865.20
1906	2	127,128.36	1928	1,023	176,698,989.14
1907	2	166,313.82	1929	1,395	209,690,417.77
1908	4	218,432.35	1930	1,452	192,943,765.42
1909	6	310,062.16	1931	1,459	173,705,094.52
1910	14	662,331.16	1932	1,473	155,271,981.19
1911	22	1,183,279.96	1933	1,466	178,773,965.06
1912	34	2,050,641.99	1934	1,474	212,053,361.46
1913	48	2,637,293.72	1935	1,481	225,936,100.88
1914	71	3,560,293.75	1936	1,496	258,322,479.00
1915	86	4,825,072.19	1937	1,523	275,375,137.32
1916	127	8,428,144.34	1938	1,539	257,963,945.53
1917	177	14,881,203.14	1939	1,554	282,133,933.64
1918	197	21,338,103.60	1940	1,586	304,539,325.64
1919	197	28,783,965.42	1941	1,605	377,571,710.99
1920	312	42,846,008.53	1942	1,611	490,295,173.10
1921	313	46,641,928.20	1943	1,610	489,888,090.69
1922	371	49,035,729.06	1944	1,608	535,362,894.30
1923	475	62,188,978.73	1945	1,602	549,149,147.67

STORES BY STATES, Dec. 31, 1945

Alabama ..	12	Iowa .	68	Nebraska .	51	South Carolina .	13
Arizona . . .	18	Kansas .	77	Nevada .	8	South Dakota .	27
Arkansas . .	18	Kentucky .	21	New Hampshire	3	Tennessee .	21
California	139	Louisiana .	11	New Jersey .	4	Texas .	118
Colorado . .	48	Maine .	9	New Mexico	17	Utah .	30
Connecticut .	6	Maryland .	5	New York .	33	Vermont	5
Delaware . .	2	Massachusetts .	10	North Carolina .	31	Virginia .	13
Florida	19	Michigan . . .	52	North Dakota .	33	Washington .	61
Georgia	17	Minnesota . .	63	Ohio .	61	West Virginia .	12
Idaho	35	Mississippi . .	19	Oklahoma	49	Wisconsin .	54
Illinois	49	Missouri . . .	49	Oregon .	42	Wyoming .	22
Indiana	52	Montana .	36	Pennsylvania	58		
				Rhode Island	1	Total Stores	1602

J. C. PENNEY COMPANY
A DELAWARE CORPORATION

OFFICERS

J. C. PENNEY
Chairman of the Board

E. C. SAMS
President

F. W. BINZEN
3rd Vice-President

A. W. HUGHES
Executive Vice-President

G. E. MACK
Treasurer

W. A. REYNOLDS
and Vice-President

A. J. RASKOPF
Secretary

R. C. WEIDERMAN
Comptroller

DIRECTORS

J. C. PENNEY, Chairman

E. C. SAMS

E. A. ROSS

J. I. H. HERBERT

A. W. HUGHES

G. H. BUSHNELL

F. W. BINZEN

L. W. HYER

F. A. BANTZ

W. A. REYNOLDS

J. F. BROWN